

Franchise Tax Board**ANALYSIS OF ORIGINAL BILL**

Author: Wolk Analyst: Kristina E. North Bill Number: AB 680
Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: February 21, 2007
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Rice Straw Credit/Extend Repeal Date To January 1, 2013

SUMMARY

This bill would extend the Rice Straw Credit for an additional five years.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to continue to encourage taxpayers to purchase rice straw to facilitate the use of rice straw as an alternative to open burning.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2007, and before January 1, 2013.

POSITION

Pending.

ANALYSIS**FEDERAL/STATE LAW**

Federal and state laws contain a variety of provisions specifically relating to farmers and agriculture. These provisions include special accounting and inventory methods, certain income deferral conditions, capital gain/ordinary loss treatment, the deduction of items normally capitalized, and exempt status for labor, agricultural, or horticultural organizations.

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Board Position:

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Department Director**Date**

Selvi Stanislaus
by Lynette Iwafuchi

4/2/07

Current state law allows a tax credit equal to \$15 for each ton of rice straw purchased by the taxpayer that was grown in California. Under both the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), the credit is limited to an aggregate annual amount of \$400,000 for all taxpayers.

By reference to the Health and Safety Code, "rice straw" is defined as the dry stems of cereal grains left after the seed heads have been removed.

To qualify for the credit, the purchaser must be the "end user" of the rice straw (i.e., anyone who uses the rice straw for processing, generation of energy, manufacturing, export, prevention of erosion, or for any other purpose, except open burning, which consumes the rice straw). In addition, the taxpayer allowed the credit must be unrelated to the person who grew the rice straw.

The Department of Food and Agriculture (DFA) is required to certify the credits on a "first come, first served" basis and ensure that the aggregate amount for the calendar year is less than \$400,000. To qualify for the credit, the taxpayer must obtain, retain, and provide a copy of the certification provided by DFA. DFA is required to provide an annual listing to the Franchise Tax Board of the qualified taxpayers who were issued certificates. This credit will cease to be operative for taxable years beginning on or after January 1, 2008, and repealed as of December 1, 2008.

THIS BILL

This bill would extend the operative date for the Rice Straw Credit from taxable years beginning before January 1, 2008, to taxable years beginning before January 1, 2013, and extend the repeal date to December 1, 2013.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 1686 (Thomson, 2001/2002) would have created a Rice Straw Utilization Program to provide financial assistance to rice growers and end users of rice straw in the Sacramento Valley Air Basin. The Governor vetoed this bill because of the funding required in the bill.

SB 38 (Lockyer, Stats. 1996, Ch. 954) created a tax credit equal to \$15 for each ton of rice straw purchased by the taxpayer.

PROGRAM BACKGROUND

The department annually releases a report on state tax expenditures. Appendix A contains information from the 2006 Income Tax Expenditures Compendium of Individual Provisions State Tax Expenditure Report regarding the usage of the Rice Straw Credit.

OTHER STATES' INFORMATION

Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide a credit comparable to the rice straw tax credit in California. The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

Based on a review of states that encourage the repurpose of rice straw, *Arkansas* is the only other state that has a rice straw credit for personal income and corporate taxpayers. *Arkansas* established an income tax credit in the amount of \$15 for each ton of rice straw in excess of 500 tons that is purchased by an Arkansas taxpayer who is the end user of the straw. The amount of credit is limited to 50% of the income tax due for the tax year. Unused credit can be carried over for 10 consecutive tax years following the year in which the credit is earned. The credit is effective for taxable years beginning on or after January 1, 2006.

FISCAL IMPACT

This bill would not impact department costs.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the personal income tax and corporation tax revenue loss from this bill would be as follows:

Estimated Revenue Impact of AB 680 Effective On Or After January 1, 2007 Enactment Assumed After June 30, 2007			
Rice Straw Credit	2006/07	2007/08	2008/09
	<-\$250,000	<-\$250,000	<-\$250,000

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The rice straw credit has been available since 1997. Using the most current information available, between 2003 and 2005, credit usage averaged \$220,000. Because the Rice Straw Credit has historically low usage, it is assumed that the credit usage would remain unchanged; resulting in a negligible loss of less than \$250,000 annually, if the credit is extended.

LEGISLATIVE STAFF CONTACT

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Appendix A

Rice Straw Credit

Description:

The Rice Straw Credit gives a credit worth \$15 per ton to taxpayers who purchase California-grown rice straw and use the rice straw for some purpose other than burning. To qualify for the credit, taxpayers must receive certification from the California Department of Food and Agriculture that they did purchase the rice straw and use it in an approved manner. Credits are limited to \$400,000 per year and are granted on a "first-come, first-served" basis. Taxpayers who are related to rice straw growers are not eligible for the credit. Rice straw purchases after 2007 will not be eligible for the credit.

Amount:

In tax year 2003, the amount of credits applied was \$0.2 million.

Number of Tax Returns Affected:

In tax year 2003, credits were applied on 62 Personal Income Tax returns and 13 Corporate Tax Returns

Discussion:

The purpose of this credit is to encourage the development of alternatives to rice burning. It is generally believed that the burning of rice straw produces adverse aesthetic and health consequences. The purpose of this credit is not to eliminate burning by purchasing all available rice straw. The Department of Food and Agriculture notes that, "The ceiling placed on this tax credit will only address approximately one 62 percent to two percent of the available straw, but may provide enough incentive for private concerns to develop economical uses of rice straw."

To be considered effective, this credit must induce new uses for rice straw or increase volumes of rice straw used for existing purposes, rather than simply pay rice straw consumers for existing uses. The proportion of credited alternative rice straw projects that would not have been undertaken in the absence of this credit is not known.

One policy alternative available for achieving the goal of reduced rice straw burning is directly regulating the amount of rice straw burning. This option could be more effective in meeting the policy objective of reduced burning, but may impose disposal costs on Californians currently burning rice straw.